

ROLL CALL

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Stimulus Bargain Is Hard, but Debt Bargain Is Harder

For several years, a bipartisan group of think tank deficit hawks has been meeting regularly and issuing loud alarms about the nation's long-term debt crisis.

On Jan. 22, in the wake of President Barack Obama's pledges to address the crisis this month, four members of this "Gang of 16" held a media briefing to give him ideas.

Noting that the group included representatives from the right to center-left, Will Marshall of the "New Democrat" Progressive Policy Institute joked, "We were post-partisan before post-partisan was cool."

But just five days later, when the gang drafted a letter to the president itemizing its recommendations, conservatives from the Heritage Foundation and the American Enterprise Institute dropped out.

Why? Because the group advised Obama that when, as he promised, he moves to "scrub every line in the current budget" to eliminate ineffective items, he include "tax expenditures" as well as spending programs.

Conservative, centrist and even some liberal policy wonks agree that the nation's present fiscal course is dangerously "unsustainable."

In fact, sometimes they are close to setting their hair on fire warning of the possible consequences: enormous tax burdens on younger workers or "generational warfare," the imminent bankruptcy of Medicare, hyper-inflation and a crash in the value of the dollar, astronomical interest rates that smother growth, loss of the government's triple-A bond rating and refusal of world lenders to buy U.S. debt.

And yet, even this bipartisan band of Cassandras has split over the idea that tax increases — actually, closing tax loopholes worth about \$1 trillion a year — should be part of the solution to the nation's debt burden.

If this group can't agree to put taxes "on the table" to solve a dire dilemma, just imagine the difficulty Obama is going to have getting Republicans and Democrats to come together.

It's all the more reason that, along with having his White House budget director, Peter Orszag, compile spending plans for the long term as well as the short, Obama needs to get a bipartisan commission working on solutions — a commission with teeth.

That idea has wide support. Senate Budget Chairman Kent Conrad (D-S.D.) and former ranking member (now Commerce secretary nominee) Judd Gregg (R-N.H.) have promoted one version; Reps. Jim Cooper (D-Tenn.) and Frank Wolf (R-Va.) have another.

In each case, the commission would try to achieve "grand bargains" to reform out-of-control entitlement programs, institutionalize spending restraints, reform the tax code to encourage savings, involve the public to build a popular base — and require up-or-down votes in Congress on its proposals.

But to illustrate the difficulties, when Wolf offered an amendment to the House stimulus package to create a commission, it was angrily dismissed by House Appropriations Chairman David Obey (D-Wis.) and summarily voted down with only one Democrat supporting it.

The fundamental problem the country faces was best stated by Gang of 16 organizer Alice Rivlin of the Brookings Institution in Congressional testimony Jan. 29.

"Before the current crisis," she said, "Americans were consuming and borrowing too much, while saving too little. We had become an over-mortgaged, over-leveraged society dependent on foreign credit."

"If recovery from this recession is to be solid and sustainable, we must stop living beyond our means. We must transform ourselves into a society that consumes less, saves more and finances a larger fraction of its investment with domestic saving, rather than foreign borrowing."

After World War II, total federal government debt reached its all-time high of 121.7 percent of gross domestic product. Prosperity got it down to 33.3 percent in 1980. Reagan and Bush 41 tax cuts and defense spending pushed the ratio back to up 66.2 percent in 1993.

Clinton administration and Congressional GOP budget-balancing brought it down to 57.4 percent in 2001.

But now a combination of George W. Bush's tax cuts, Congressional spending and the recession have pushed it to a probable 75 percent this year and a possible 85 percent next year.

If federal debt goes to 100 percent of GDP — where it's headed in a few years — the country's credit rating is in danger and foreign lenders may look elsewhere to put their money, forcing the U.S. to raise interest rates to attract capital.

Rivlin and her gang have urgently recommended not making matters worse by putting long-term, unpaid-for commitments into the current stimulus package, which is already likely to increase the national debt by \$2 trillion this year.

Yet, to cite just one example, the House voted to give Medicaid to all unemployed persons, regardless of income.

Clearly, there's a need to give the economy a big, short-term, deficit-expanding jolt. But Obama has to plan fast to pivot toward frugality — and bring Congress and the country along.

As Marshall put it, that's "going to be the central drama of the Obama administration."